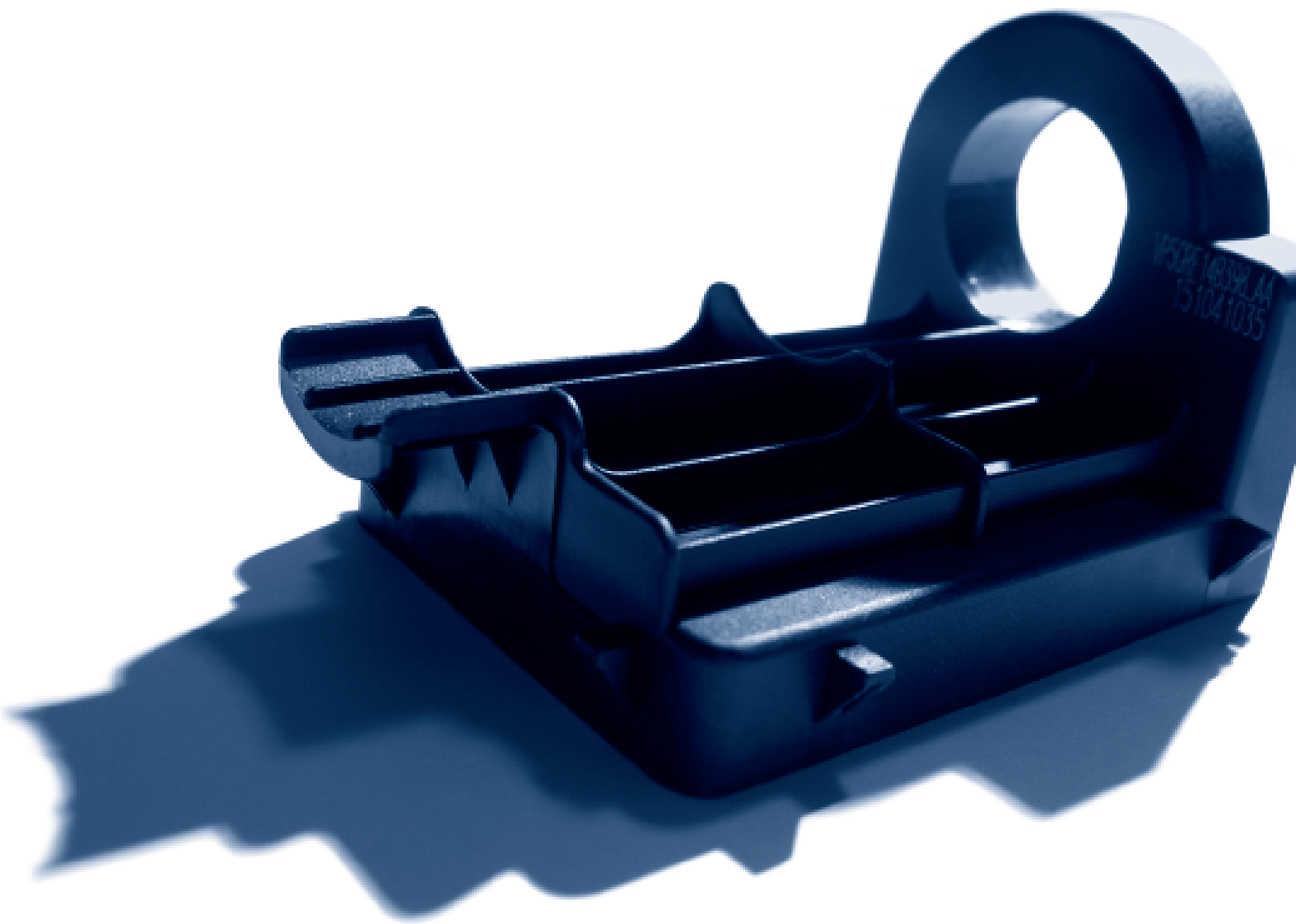


# Half Year Report 2005/06

At the heart of power electronics



Focus on the industrial and automotive core  
**transducer businesses**



### Noticeable pick-up of businesses in the second quarter after weak first quarter – promising outlook

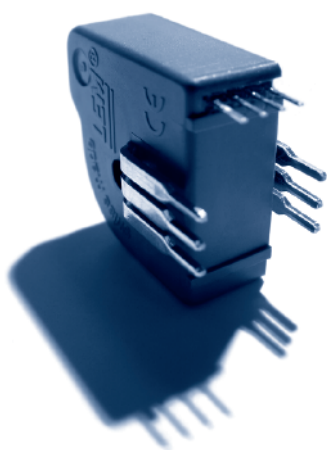
Dear Shareholders,

With sales of CHF 69.9 million and strong growth in orders received in the first half of financial year 2005/06 (April to September 2005), LEM further strengthened its market position. After the closing of the sale of the LEM Instrument Business to Danaher Corporation in June, the company focuses its efforts on its continuing industrial and automotive core transducer businesses. In the Industrial Segment, the company achieved substantial growth contributions in emerging markets while the Automotive Segment progresses on its steady growth path. These strategic milestones underscore LEM's undisputed position as the global market leader in designing, manufacturing and selling transducers for measuring electrical parameters for the use in a wide range of applications.

Looking forward, the key drivers for growth in LEM's core businesses remain sound. In fact, the rising oil prices ask for energy savings in variable speed motor drives both in the industrial and automotive markets. Automotive applications keep their steady growth. At the same time, power electronics are more prevalent to replace other sources of energy and alternative energies such as solar or wind power experience an increasing demand.

### Ongoing strength in the Industrial Segment and promising development in the Automotive Segment

The Industrial Segment achieved sales of CHF 61.3 million, which represents an increase of 2.9% in sequential semesters but -5.3% compared to the first half year of 2004/05. Uninterrupted power supplies (UPS) and new energy applications continued to grow above average. Also the traction markets contributed to the positive sales development. LEM's new ASIC (application specific integrated circuit) based product ranges allowed LEM to be positioned as a frontrunner e.g., in forklifts and medical imaging applications. In the reporting period, the important market for motor drives declined due to a slower economic development in some key markets and the growth of photovoltaic applications slowed down due to the current shortage in supply of refined silicon for the solar panel industry. Geographically, China and some emerging markets clearly outperformed general growth. In Asia, China continued its strong performance with sales growth of 30%. Furthermore, India, Russia and Brazil showed strong sales results in the reporting period. Compared to the strong growth in the first half of 2004/05, sales were down in Europe -6%, NAFTA -6% and Asia -3%.



The Automotive Segment achieved sales of CHF 8.6 million, which represents an increase of 19.1 % in sequential semesters and 93.7 % compared to the first half of 2004/05. After a slow start in the first months, LEM again experienced a robust growth in sales and orders. It was supported by the surge of car sales in North America and by the introduction of LEM's products in the new 2006 model cars. Since its start in June 2004, three million transducers for the battery management application were sold. Currently, every seventh vehicle assembled in North America is equipped with such a LEM transducer. The new application in motor drives for the Electronic Power Steering has ramped up to mass production for a Japanese customer who uses the technology for a new volume car model. The geographical diversification has improved with a sales breakdown of 74 % in NAFTA, 20 % in Asia and 6 % in Europe.

## **Strong orders and excellent financial position**

After a slow start in the first quarter, business – in lockstep with the economic development – picked up considerably in the second quarter. This trend relates to sales, orders received, as well as EBIT, which all achieved healthy growth in the second quarter. Sales for the first six months 2005 reached CHF 69.9 million representing a growth of 4.6 % compared to second half year of 2004/05 and 1.1 % compared to the strong first half of the previous year which posted a sales growth of 26 %. Orders received showed an even stronger increase and reached CHF 71.8 million representing a growth of 11.0 % compared to the second half of 2004/05 and 10.1 % compared to the same period of the previous year. This strong growth was attributable to both the Industrial as well as the Automotive Segment whose orders grew by 9.4 % to CHF 62.8 million respectively by 23.3 % to CHF 9.0 million (in sequential semesters).

EBIT amounted to CHF 5.8 million, up from 5.4 in the second half year 2004/05 and down from CHF 8.3 million in the same period of the previous year. Compared to last year's same period, this decrease derives from lower gross margins, which was mainly due to higher raw material costs and under-absorption due to lower manufacturing volumes resulting from realized inventory reductions.

A different product mix with a higher proportion of Automotive sales at a lower gross margin percentage also contributes to the decrease.

In the Automotive Segment a key customer, Delphi, filed in the US for chapter 11. LEM's exposure is limited to CHF 0.2 million in accounts receivable, for which an allowance for bad debt has been made in the sales expense. Nevertheless, LEM's cost management initiatives resulted in decreased sales and administrative expenses of 0.5 % compared to same period of last year.



The higher net financial expenses are due to financial instruments. The negative variation in fair value and negative result on these instruments resulted in a charge of CHF -2.2 in the first half year 2005/06 against an income of CHF 0.4 million in last year's same period. The taxes amount to CHF 1.1 against CHF 2.7 in last year's same period. The latter amount included CHF 0.7 of deferred taxes from the restatement on financial instruments. The reduction in current tax charge comes mainly from Japan. This resulted in net earnings for continuing operations of CHF 1.7 million against CHF 5.4 million in the last year's same period.

Net earnings for the LEM Group reached CHF 19.6 million versus CHF 5.0 million last year, thanks primarily to the capital gain on the sale of LEM Instruments of CHF 18.9 million.

The cash flow from operations amounted to CHF 1.3 million compared to CHF 3.7 million for last year's same period. The capital expenditure amounted to CHF 1.7 million against CHF 2.4 million in last year's same period.

After the divestiture of LEM Instruments, LEM's financial position is in excellent shape. This caused the Board of Directors to announce a capital repayment to shareholders, which was executed on 23 September 2005 along with a stock split of 4 to 1. Even after the capital reduction of CHF 29.4 million, the company's Shareholders' Equity stood at CHF 62.9 million on 30 September 2005 (CHF 66.5 million on 31 March 2005), the interest bearing debt was reduced by CHF 29.9 million and the net cash position amounted to CHF 24 million on 30 September 2005.

### Closing of LEM Instruments divestiture

The closing of the sale of LEM Instruments took place on 23 June 2005. The Profit & Loss Account was consolidated only for the first quarter. Sales and EBIT of LEM Instruments for the first quarter reached respectively CHF 13.2 million and CHF -0.7 million. Net earnings from Discontinued Operations reached CHF 18.0 million of which the capital gain from the divestment was CHF 18.9 million (see note 3).

### Personnel

The CFO Kennerth Lundgren has resigned for personal reasons and will leave the Group at the latest by the end of March 2006. He has worked 13 years with LEM and after having successfully contributed to the realisation of the divestments of the real-estate and LEM Instruments, he now wants to look for a new professional challenge.

### Confirmation of outlook

The second quarter sales were stronger than the first quarter and the better order entry level in the last months supports the outlook given on the occasion of the 2004/05 annual reporting and confirmed on 5 August 2005, the target for the full year EBIT is to reach in the range of CHF 10 to 13 million. Sales are expected to at least equal the high sales level of last year of CHF 136 million.

### Segment Information

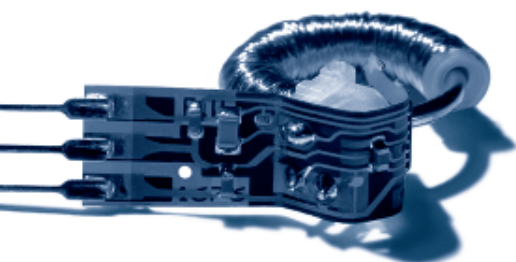
In CHF million

	2004/05				2005/06		2004/05	2005/06	Variation	Variation	Variation
	Q1	Q2	Q3	Q4	Q1	Q2	1HY	1HY	YoY	QoQ	sequential semesters
<b>Sales</b>											
Industrial Segment	32.0	32.7	28.9	30.7	30.4	30.9	64.7	61.3	-5.3%	1.6%	2.9%
Automotive Segment	2.0	2.4	4.0	3.2	3.7	4.9	4.4	8.6	93.7%	32.4%	19.1%
Continuing Operations	34.0	35.1	32.9	33.9	34.1	35.8	69.1	69.9	1.1%	5.0%	4.6%
<b>Orders received</b>											
Industrial Segment	32.9	27.9	27.4	30.0	30.1	32.7	60.8	62.8	3.3%	8.6%	9.4%
Automotive Segment	2.0	2.4	4.2	3.1	4.3	4.7	4.4	9.0	104.5%	9.3%	23.3%
Continuing Operations	34.9	30.3	31.6	33.1	34.4	37.4	65.2	71.8	10.1%	8.7%	11.0%
<b>EBIT</b>											
Industrial Segment	4.8	4.3	2.7	2.5	2.8	3.2	9.1	6.0	-34.1%	14.3%	15.4%
Automotive Segment	-0.4	-0.4	0.6	-0.4	-0.4	0.2	-0.8	-0.2	-75.0%	-150.0%	-200.0%
Continuing Operations	4.4	3.9	3.3	2.1	2.4	3.4	8.3	5.8	-30.1%	41.7%	7.4%





## **Interim Consolidated Financial Statements**



<b>Assets</b>	<b>30.09.2005</b>	<b>31.03.2005</b>
	<b>CHF</b>	<b>CHF</b>
<b>Current assets</b>		
Cash and cash equivalents	26'044'630	29'753'314
Trade debtors	25'398'072	23'613'551
Other current assets	4'584'632	7'557'646
Inventories	19'241'010	24'984'136
<b>Total current assets</b>	<b>75'268'344</b>	<b>85'908'647</b>
<b>Non-current assets</b>		
Deferred taxes	653'574	655'330
Non-current receivables	999'506	736'651
Property, plant and equipment	14'849'553	14'911'127
Intangible assets	5'038'167	5'911'648
<b>Total non-current assets</b>	<b>21'540'800</b>	<b>22'214'756</b>
Assets held for sale	0	41'060'903
<b>Total assets</b>	<b>96'809'143</b>	<b>149'184'306</b>

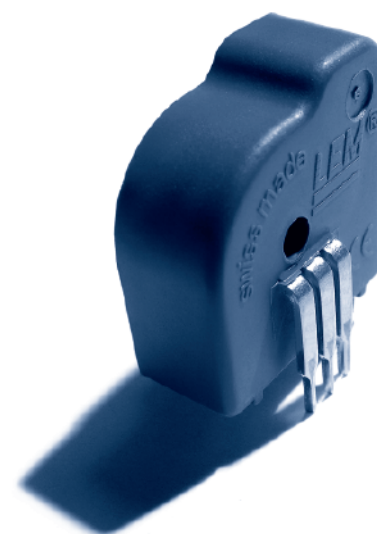
<b>Liabilities and equity</b>	<b>30.09.2005</b>	<b>31.03.2005</b>
	<b>CHF</b>	<b>CHF</b>
<b>Current liabilities</b>		
Trade creditors	7'624'628	10'736'498
Other current liabilities	8'597'930	13'312'552
Current income tax payable	1'377'389	3'052'032
Provisions	6'891'644	1'510'778
Derivative financial instruments	4'897'770	3'623'375
Current financial debt	790'922	30'736'508
<b>Total current liabilities</b>	<b>30'180'283</b>	<b>62'971'743</b>
<b>Non-current liabilities</b>		
Non-current financial debt	1'216'108	1'194'772
Deferred income tax liabilities	2'483'040	2'483'040
<b>Total non-current liabilities</b>	<b>3'699'148</b>	<b>3'677'812</b>
Liabilities associated with assets held for sale	0	15'991'898
<b>Total liabilities</b>	<b>33'879'431</b>	<b>82'641'453</b>
<b>Equity</b>		
Share capital	600'000	30'000'000
Reserves	32'209'736	26'075'585
Retained earnings	30'020'372	10'403'823
Minority interests	99'604	63'445
<b>Equity</b>	<b>62'929'712</b>	<b>66'542'853</b>
<b>Total liabilities and equity</b>	<b>96'809'143</b>	<b>149'184'306</b>



# CONSOLIDATED PROFIT & LOSS ACCOUNT

## APRIL TO SEPTEMBER

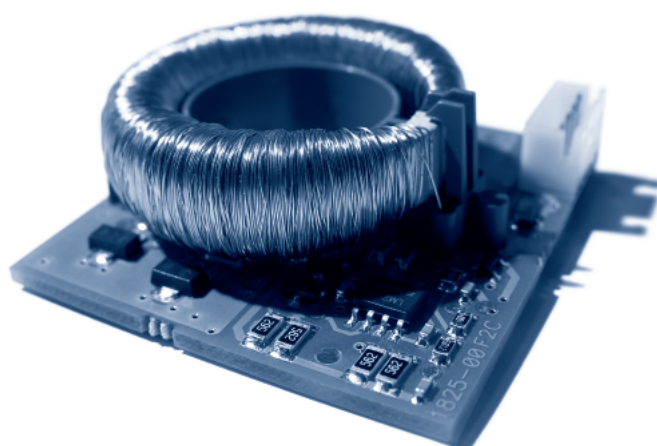
	2005/06	2004/05 (restated)
	CHF	CHF
<b>Continuing Operations</b>		
Sales	69'885'874	69'108'889
Cost of goods sold	(41'528'234)	(38'253'896)
<b>Gross margin</b>	<b>28'357'640</b>	<b>30'854'993</b>
Sales expense	(9'097'999)	(9'236'729)
Administration expense	(8'534'012)	(8'492'524)
Research & development expense	(5'211'335)	(5'023'141)
Other expense	(106'724)	(104'427)
Other income	386'281	258'028
<b>Earnings before interests and taxes</b>	<b>5'793'851</b>	<b>8'256'200</b>
Financial Expense (net)	(2'891'205)	(193'469)
<b>Earnings before taxes</b>	<b>2'902'646</b>	<b>8'062'731</b>
Income taxes	(1'175'913)	(2'680'114)
<b>Net earnings from Continuing Operations</b>	<b>1'726'733</b>	<b>5'382'617</b>
<b>Discontinued Operations</b>		
(Loss) earnings from Discontinued Operations	17'922'285	(419'818)
<b>Net earnings</b>	<b>19'649'018</b>	<b>4'962'799</b>
Attributable to:		
LEM shareholders	19'616'548	4'816'355
Minorities interests Continuing	32'470	80'612
Minorities interests Discontinued	0	65'832
<b>Net earnings</b>	<b>19'649'018</b>	<b>4'962'799</b>
Earnings per share for profit attributable to the equity holders of the company during the year		
• basic Continuing Operations	1.4	4.6
• basic Discontinued Operations	14.9	-0.4
• diluted Continuing Operations	1.4	4.6
• diluted Discontinued Operations	14.9	-0.4



# CONSOLIDATED CASH FLOW STATEMENT

## APRIL TO SEPTEMBER

	2005/06	2004/05 (restated)
	CHF	CHF
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Net earnings from Continuing Operations</b>	1'726'734	5'382'617
<i>Reconciliation of net earnings to cash flows from operating activities:</i>		
Depreciation and amortisation	2'378'796	2'265'735
Constitution of provisions	362'589	141'237
Reversal of provisions	(540'110)	(8'758)
Deferred taxes	0	678'000
Interest expense	1'595'992	990'326
Financial income	(68'609)	(340'275)
Fair value loss (gains) on derivative financial instruments	790'653	(474'023)
Tax charge	1'175'913	2'002'114
Share based compensation expense	260'260	0
<b>Cash flow</b>	<b>7'682'218</b>	<b>10'636'973</b>
Conversion differences on cash flows	72'721	(72'260)
Change in inventory	5'357'115	(2'068'235)
Change in receivables	(1'042'985)	(3'800'865)
Change in payables	(5'662'702)	305'201
Interest paid	(2'320'587)	(986'979)
Interest received	88'609	884'298
Taxes paid	(2'902'906)	(1'209'522)
<i>Changes in working capital:</i>	<i>(6'483'456)</i>	<i>(6'876'102)</i>
<b>Cash flow from operating activities</b>	<b>1'271'483</b>	<b>3'688'611</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Capital expenditure in intangible fixed assets	(116'895)	(326'509)
Capital expenditure in tangible fixed assets	(1'715'934)	(2'379'058)
Proceeds from the sale of fixed assets	571'698	279'496
Investment in long-term receivables	(77'850)	(16'769)
Proceeds from long-term receivables	224'832	214'691
<b>Cash flow from investing activities</b>	<b>(1'114'149)</b>	<b>(2'228'149)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Repayment of share capital	(29'400'000)	0
Variation in own shares	3'354'090	70'064
Proceeds from borrowings	0	2'565'048
Repayment of borrowings	(29'940'686)	0
<b>Cash flow from financing activities</b>	<b>(55'986'596)</b>	<b>2'635'112</b>
<b>Net cash flow Discontinued Operations</b>	<b>48'952'258</b>	<b>517'648</b>
<b>Change in cash and cash equivalents</b>	<b>(6'877'004)</b>	<b>4'613'222</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>32'620'736</b>	<b>10'158'233</b>
Effects of exchange rates on cash and cash equivalents	300'898	(403'728)
<b>Cash and cash equivalents at the end of the year</b>	<b>26'044'630</b>	<b>14'367'727</b>
<b>Change in cash and cash equivalents</b>	<b>(6'877'004)</b>	<b>4'613'222</b>
Reconciliation of cash and cash equivalents with the balance sheet:		
Cash	26'040'891	11'125'536
Marketable securities	3'739	81'283
Equals the position "cash and cash equivalents" in the balance sheet	26'044'630	11'206'819
Plus: Cash included in the position disposal group held for sale	0	3'160'908
Equals cash and cash equivalents	26'044'630	14'367'727



Attributable to equity holder  
of the company

In CHF

	Share capital	Other reserves	Treasury shares	Retained earnings	Minority Interest	Total equity
<b>Balance at 1 April 2004</b>	30'000'000	31'282'888	(3'758'084)	10'140'352	749'979	68'415'135
Changes in capital						0
Currency translation difference		(1'038'262)			126'365	(911'897)
Treasury shares			70'064			70'064
Attribution of earnings				4'816'355		4'816'355
<b>Balance on 30 September 2004</b>	30'000'000	30'244'626	(3'688'020)	14'956'707	876'344	72'389'657
<b>Balance on 1 April 2005</b>	30'000'000	28'764'263	(2'688'678)	10'403'823	63'445	66'542'853
Repayment of share capital	(29'400'000)					(29'400'000)
Currency translation difference		1'738'016			36'159	1'774'175
Treasury shares		665'412	2'688'678			3'354'090
Equity based compensation		252'760				252'760
Changes in scope		789'285				789'285
Attribution of earnings				19'616'549		19'616'549
<b>Balance on 30 September 2005</b>	600'000	32'209'736	0	30'020'372	99'604	62'929'712

#### Note 1: Basis of Preparation

##### Nature of operations:

LEM is a world leader of transducers for the measurement of electrical parameters like current and voltage in a broad range of applications.

##### Basis of presentation and accounting policies

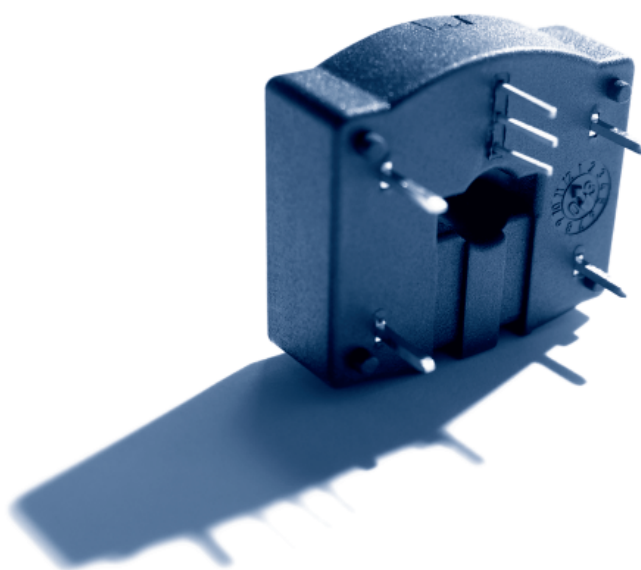
The consolidated financial statements for the six months ended on 30 September 2005 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with IAS 34. The interim consolidated financial statements have been prepared in accordance with our accounting policies as set out in the annual report 2004/05. The consolidated financial statements are presented in Swiss francs, CHF. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

#### Note 2: Changes in Accounting Policies – IFRS

No new IFRS standards came into effect since 1 April 2005, for which LEM had not already made an early adoption.

The figures for the comparatives reported in last year's half year report have been changed as follows:

- Goodwill amortisation:  
IFRS 3 came into effect on 1 April 2004. LEM had not ceased its goodwill amortisation in last year's half year report. In the Profit & Loss Account this expense was recorded on the line "goodwill amortisation". This has been corrected and the impact was CHF 278'000 on the Continuing Operations and CHF 751'000 on the Discontinued Operations.
- Discontinued Operations covering the CTN real-estate activity and LEM Instruments are classified in the Profit & Loss Account and in the Cash Flow Statement in accordance with IFRS 5. There is only a reclassification issue. The impact on earnings is neutral. In last year's half-year report only the EBIT of LEM Instruments appeared on the line "Loss from Discontinued Operations".
- The restatement of the treatment of derivative financial instruments that were made for the full financial year 2004/05 has been done for the first half year 2004/05 (see page 34–35 of the annual report 2004/05 for more explanations). In comparison to last year's reported half year figures, the impact on the different lines items were as follows: Sales Automotive Segment CHF -114'087, net financial (expense)/income CHF 632'593, deferred tax charge 678'000. This means a net negative impact on net earnings of CHF 159'494.

**Note 3: Discontinued Operations and Changes in the Scope of Consolidation**

The Instruments Segment and the former real-estate activity CTN are classified as Discontinued Operations. The real-estate complex CTN was sold on 31 March 2005 and the sale was recorded in the last financial year. By the end of September 2005 a capital reduction was done in CTN SA and the shares of this subsidiary were transferred from LEM Holding SA to the Fongit incubator. CTN SA, which was integrated with proportionate consolidation is no longer part of the scope of consolidation.

The closing of the sale of LEM Instruments to Danaher Corporation, Washington D.C., USA, took place on 24 June. It was sold for an enterprise value of CHF 63 million minus net debt of CHF 5.9 million, thus an equity value of CHF 57.1 million 90% of this purchase consideration was paid upon closing. The remaining 10% was put in an escrow relating to the equity transfer of the Chinese entities of LEM Instruments. This sum was released in August. The sale resulted in capital gain of CHF 18.9 million. The provision for capital gains taxes of CHF 0.65 million have already been taken into account. The amount of the capital gain is still subject to post closing adjustments relating to the closing balance sheet of LEM Instruments. These financial statements include a best estimate of the post closing adjustments.

In thousand CHF		
April to September	2005/06	2004/05
<b>Profit &amp; Loss Account of Discontinued Operations</b>		
Sales	13'216	24'645
Gross Margin	6'206	13'019
in %	47.0%	52.8%
Sales expense	-3'402	-6'473
Administration expense	-1'874	-4'177
R&D expense	-1'571	-2'757
Other expense	-361	-77
Other income	247	202
EBIT LEM Instruments	-754	-263
Net financial expense	-31	-490
Taxes	-164	-137
Net earnings from LEM Instruments' operational activity	-948	-890
Capital gain on the sale of LEM Instruments	18'925	-
Net earnings from LEM Instruments	17'976	-890
Real-estate earnings	2	470
Loss on the divestment of CTN SA	-56	-
Net loss from CTN SA	-54	470
Total net earnings from Discontinued Operations	17'922	-420
<b>Total net earnings from Discontinued Operations</b>	<b>-423'529</b>	<b>21'022'285</b>
<b>Cash Flow from Discontinued Operations Instruments</b>		
Operating cash flows	-8'141	1'170
Investing cash flows	35'716	-293
Financing cash flows	1'935	-64
Total cash flows	29'510	814
<b>Real-estate</b>		
Operating cash flows	7'441	609
Investing cash flows	12'001	-3
Financing cash flows		-903
Total cash flows	19'442	-297
<b>Total cash flows of Discontinued Operations</b>	<b>48'952</b>	<b>517</b>

**Note 4: Reduction of the nominal value of the share capital and split**

At the shareholders' meeting on 1 July 2005, it was decided to reduce the nominal value of the shares by CHF 98 to CHF 2, i.e., a total reimbursement of CHF 29.4 million. It was also decided to make a split with one old share giving four new LEM shares. The old number of shares was 300'000 and after the split it became 1'200'000. These two events took place on 23 September 2005.

On 30 September 2005 the Company held no treasury shares any more (31.3.2005: 9'596; 30.9.2004: 10'548).

**Note 5: New Stock Option Plan**

In May 2005 the Board of Directors approved a new stock option plan with 40'825 options each of which gave the right to buy one LEM share at a strike price of CHF 77.18 during the exercise period from 1 April 2007 to 31 March 2015. Before the split and nominal value reduction the plan had 8,450 options with a strike price of CHF 371.50. The Eurex rules were used for the adjustment. The total expense for stock options in the half-year 2005/06 is CHF 252'760 and it was booked against equity, since the plan is equity settled. The amount of CHF 260'260 is added back in the Cash Flow Statement on the line "share based compensation expense". It also includes the expense for the plan from last year. LEM's stock option plans do not give rise to dilution since no new shares will be issued.

**Note 6: Deferred taxes**

The deferred tax provision of CHF 2'483'040 on 31 March 2005 remained unchanged on 30 September 2005. Nothing gave rise to deferred taxes in the first half year 2005/06.

**LEM – At the heart of power electronics**

LEM is a market leader in providing innovative and high quality solutions for measuring electrical parameters. Its core products – current and voltage transducers – are used in a broad range of applications in industrial, traction, energy and automotive markets. LEM's strategy is to exploit the intrinsic strengths of its core business and develop opportunities in new markets with new applications. With production plants in Geneva (Switzerland), Machida (Japan) and Beijing (China) and regional sales offices around the globe, LEM offers a seamless service to its customers worldwide. LEM has been listed on the SWX Swiss Exchange since 1986; the company's ticker symbol is LEHN. <http://www.lem.com>

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